

LOUISVILLE METRO COUNCIL COMMITTEE MINUTES

Special Joint meeting with Government Accountability and Oversight and Budget

Monday, April 26, 2010

4:06 P.M.

Third Floor, City Hall

Government Accountability and Oversight

Present: **Chairman:** **CM Ward-Pugh**
 Vice Chair: **CM Fleming**
 Members: **CM King, CM Kramer, CM Downard, CM Tandy and CM Henderson**

Budget

Present: **Chairman:** **CM King**
 Vice Chair: **CM Downard**
 Members: **CM Fleming, CM Kramer, CM Woolridge, CM Hamilton, CM Blackwell, CM Welch and CM Heiner**

Also Present: **CM Benson, CM Butler, CM Flood, CM Owen, and CM Brent Ackerson**

Absent: **CM Green**

Chairwoman Ward-Pugh began the meeting by introducing the members of the committee that were present. A quorum was established.

Chairman Ward-Pugh stated this is the first time the Council has had a joint Committee Meeting. On February 22, 2010 State Auditor, Crit LuAllen, released Metro Louisville's 2009 Comprehensive Annual Financial Report known as the CAFR and commonly referred to as the Annual Audit. On March 24, 2010 Auditor LuAllen also released the Annual report of Single Audit commonly referred to as the A133. Both reports are as of June 30, 2009. Kentucky Law requires the State Auditor to annually audit the Louisville Metro Government. The State Auditor, however, may grant permission to the City to may hire a private firm in its stead. In recent years Metro Government has been granted permission by the State Auditor to hire an outside firm and have chosen to hire Strothman and Company. Further opening remarks were made by Chairman Tina Ward-Pugh

The Administration has been invited to attend another joint meeting of the Government Accountability and Oversight and Budget Committees on May 12, 2010, at 4:00 P.M. to present their plan to improve the financial operations of Metro Government.

Special Items For Discussion - CRIT LUAllen, KENTUCKY STATE AUDITOR, AUDIT REPORT - METRO LOUISVILLE

Crit LuAllen, Kentucky State Auditor; Cindy James, Assistant State Auditor; Libby Carlin, Manager of the Audit Team, were present to speak and answer questions. The following was discussed:

- 69 findings with recommendations on the City's financial reporting and its oversight of federal dollars
- State Auditor's Office issued a qualified opinion in both areas which encountered weakness in the City's oversight of the financial reporting and of federal grants
- Encountered weakness in tracking overall revenue and how the Department of Corrections handles cash management and inmate receipts
- Recommend improvements in Housing and Family Services, Public Works, Neighborhoods, and Animal Services
- Reviews finances from July 1, 2008 through June 30 2009
- Questions \$94,000 in Federal Disaster and Workforce Funding
- Audits from 2003 through 2005 were done by State Auditor, 2006 through 2008 audits were done by Strothman and Company
- Last Year's special audit of the Department of Housing and Family Services for Fiscal Year 2008 - 43 findings with 58 recommendations
 - Significant progress has now been made in Housing
- Concerns in other areas of Metro Government

- Need to strengthen financial oversight
- Role of the State Auditor
- State Auditor is granting approval for Metro Louisville to contract with an outside firm to do next year's audit with the condition that the State Auditor will have strong oversight and involvement in monitoring that audit
- Two primary issues
 - Various revenues that were not recognized by GAP
 - Need of structural changes
- Comparison of Audits from last year and this year
 - Look more to severity
- Findings covered two objectives
 - Financial reporting – 36 findings
 - Federal Program Compliance – 33 findings
- Increase in number of findings
- Accounting treatment of revenues
 - Accounting Standards to be followed - GASBY and GAP
 - Metro's response
 - Addressing the issue through an internal taskforce
 - Consulted with the Government Finance Officers Association as an additional resource
- Findings related to federal programs
 - Material findings
 - Housing and Family Services
 - Public Works – FEMA Grants
- Controlled deficiencies being spread across several agencies
- Corrections has the most significant concerns
- Required education and experience criteria for Business Managers in the agencies
 - More accounting training and accounting experience
- In the last two audits – Metro Public Integrity and should the Council be concerned
 - Minimize risks
 - Strengthen oversight and controls
- Recommendations
- Material Effect – tolerable levels - Special Revenue Fund \$1.5 million, General Fund \$8 million
- Missing money
 - Nothing specific but additional work needs to be done in Corrections and Neighborhoods to be answered fully
- Concerns about training
- Reviewing of each revenue type
- The problems grew during Merger relating to voucher entries
- The Auditor is required to have a separation of management and does not train, it is assumed the organization already knows
- Unearned revenue vs. Reservation of Fund Balance
- Findings of Criminal Matters – Neighborhoods has been referred to Metro Public Integrity on how some invoices and contracts were handled
- Structural concerns
 - Need stronger technical expertise
 - Central Finance needs more oversight
- Recommended that Corrections will have to have an Internal Audit as an independent agency
- Centralized focus on financial management
- Auditor shouldn't advise in management issues, they should just report on the Audit and give recommendations it is up to the Council and Administration to decide if outside help is needed
- The Council should review the Administration's Corrective Action Plan closely
- Difficulty in reaching a conclusion relating to FEMA
- Anytime the Auditors qualify an opinion it is serious
- Auditor LuAllen has never qualified the State's opinion
- Administration has assured Auditor LuAllen that they are serious about the correction plan that is in place
- Corrective Actions – 101 out of 182 have been initiated per letter from Jane Driskell

- The next step for the Auditor will be for next year's audit to follow up on all findings and to review to determine if progress is being made, if not there will be repeat findings and strong opinions expressed at the end of the next audit cycle
- The State Auditor did not audit the Old City but did the County, only called into cities on an as needed basis
- State Auditor mandated to audit when Louisville and Jefferson County Merged
- The difference an Audit makes – The bottom line of an Audit is for anyone to be able to rely on the City's financial statements to be solid and accurate
- State Auditor will also stay closely involved with a new Mayor
- Even though there are serious issues in this audit the financial health of Metro Government overall is still strong
- Invoices created in house
- Allocation of overhead - indirect cost
- Collection of Booking fees in Corrections and management of that money

CM Woolridge asked if Corrections could be invited to come to a Budget Meeting to see if any improvements are being made. Chairman of the Budget Committee, CM King, stated he would be happy to see that happen.

The following was also discussed:

- Will the accounting practices seen have any negative impact on future bond ratings
- The budget process is a different process than the Financial Audit
- Discrepancy in the Financial Audit may be in favor of Metro Government
- Role of an Internal Auditor vs. annual Financial Audit
- Each annual audit has to stand on its own
- Contractual obligations was not looked at in the audit, just looked at the revenue

Closing remarks were made by both Chairwoman Tina-Ward-Pugh and Chairman King.

Without objection the Meeting adjourned at 6:02 P.M.

KQG